

The binary effect of the US jobs report on EM FX

Following a sharp sell-off in emerging market FX yesterday and renewed nervousness in the market, all eyes are on the US jobs report



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USD: The binary effect of the US jobs report on EM FX

The market perception of today's US September jobs report has changed somewhat since the very strong ISM non-manufacturing reading earlier in the week. What was initially seen as a distorted report (related to hurricane Florence) can now translate into a stronger one, though our economists note that the link between the ISM and the jobs report is not particularly strong. Following the sharp sell-off in emerging market FX yesterday and the renewed nervousness in the market, the impact of the report is likely to be binary. A stronger-than-expected reading is likely to induce price action like yesterday's, while an outcome in line with initial expectations should have a cooling effect on EM FX and lead to some short-term reversal of yesterday's losses.

EUR: Less exposed

EUR/USD should see some support from the better-than-expected German August factory orders, but the key determinant of today's price action is the US September jobs report. We see the euro as less vulnerable than most of its G10 peers, as less negative news coming from Italy is helping to stabilise the euro. The eurozone current account surplus makes the currency less vulnerable to rising US funding costs.

CEE FX: HUF the most vulnerable regional currency

Central and Eastern European currencies have not been immune to the sell-off in broader emerging markets. The Hungarian forint is the key underperformer, which is in line with our view that the currency is the least attractive in the region. The central bank remains behind the curve, the real rate is the most negative in the region, funding costs are the lowest and the currency has been losing support from the deteriorating current account surplus. We also see the Czech koruna as vulnerable, given the positioning, the seasonal year-end weakness and already a fair degree of central bank tightening priced in. In the current environment, and as was the case over recent months, the Romanian leu should continue to outperform given the managed nature of the currency and the highly attractive carry (compared to the rest of the region).

INR: The RBI to deliver 25bp hike

Following the ongoing weakness in the Indian rupee (INR), our economists expect the Reserve Bank of India to deliver a 25 basis point hike today. Although they would not be surprised by a larger move, they note that the odds seem to be constrained by the central bank's 4% (+/- 2%) inflation mandate, a potential slowdown in growth due to the ongoing trade war, and troubles in the financial system ([see RBI Preview](#)). The risk to USD/INR is on the upside as the reactive hike today is unlikely to stabilise the INR.